

Decision 04-08-053 August 19, 2004

**BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA**

In the matter of the Application of the  
SOUTHERN CALIFORNIA WATER COMPANY  
(U 133 W) for an order authorizing it to increase  
rates for water service by \$15,377,000 or 19.34% in  
2004; by \$6,642,000 or 6.98% in 2005; and by  
\$6,629,700 or 6.51% in 2006 in its Metropolitan  
Service Area.

Application 03-10-006  
(Filed October 6, 2003)

Patricia Schmiede, Attorney at Law, Roland S. Tanner, for  
Southern California Water Company, applicant.  
Robert Cagen, Attorney at Law, and Sung B. Han, for  
Office of Ratepayer Advocates, protestant.

**OPINION APPROVING SETTLEMENT**

## OPINION APPROVING SETTLEMENT

### 1. Summary

The Commission approves a comprehensive settlement agreement entered into by Southern California Water Company (SCWC) and the Commission's Office of Ratepayer Advocates (ORA) that resolves all issues in SCWC's general rate case (GRC) application for Region II, its Metropolitan District. SCWC and ORA are the only parties to this proceeding.

Table 1 shows the impact of today's decision on the average bill in the Metropolitan District for both tariffs, ME-1 (potable water) and ME-3 (recycled water) for each of the two test years (2004 and 2005) and for the attrition year (2006), as a result of the revenue requirement change. The bill impact is calculated as an increase over the rates in effect at the time of each rate change. The test year data is taken from the bill impact calculations prepared by the Commission's Water Division found in Attachment B to today's decision. Attrition year data is an estimate, based upon calculations the parties submitted as late-filed Exhibit 7.

**Table 1**  
**Summary of Bill Increases for ME-1 and ME-3 Tariffs**

Year	ME-1 Tariff (Average consumption @ 23 Ccf)		ME-3 Tariff (Average consumption @ 588 Ccf)	
2004	\$2.12	3.68%	\$62.69	9.28%
2005	\$3.31	5.54%	\$84.54	11.45%
2006	\$3.57	5.67%	\$96.15	11.68%

Four capital additions projects approved for advice letter treatment will add approximately 45 cents to the average monthly bill for potable water.

Table 2 compares the parties' initial positions on revenue requirement increases for each year in the GRC cycle with the revenue requirement that results from the inputs to the parties' settlement.

**Table 2**  
**Revenue Requirement Increases**  
**(\$ thousands)**

Year	Utility Requested		ORA Recommended		Settlement/ Adopted	
	\$	%	\$	%	\$	%
2004	15,377.0	19.34	-4.5	0.0	5,201.3	6.4
2005	6,642.0	6.98	2,970.0	1.4	5,388.9	6.3
2006	6,629.7	6.51	n/c	n/c	5,168.5	5.7

The cost of equity for all years is set at 9.90% for ratemaking purposes, and the authorized rate of return on ratebase is 8.77% in 2004, 8.75% in 2005, and 8.74% in 2006.

## 2. Background

This proceeding addresses SCWC's GRC request for test years 2004 and 2005 and for attrition year 2006 in its Region II service territory, also known as the Metropolitan District. We use these terms interchangeably in today's decision. SCWC is a Class A water utility and serves customers not only in this region, but also in other regions not at issue in this proceeding.<sup>1</sup>

Region II comprises four customer service areas within the Los Angeles metropolitan area. These four customer service areas are known as Central Basin East, Central Basin West, Culver City, and Southwest, and serve approximately

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<sup>1</sup> A Class A water utility is one with more than 10,000 service connections.

100,000 customers. Each customer service area is primarily residential but also has some commercial and industrial sections.

The water supply for the region comes from a number of sources, including 43 utility-owned wells, eight connections to Central Basin Municipal Water District facilities, 13 connections to West Basin Municipal Water District facilities, connections to facilities for the cities of Cerritos, Downey, Huntington Park and Inglewood, and one connection with Suburban Water Company.

The Commission established the current, base rates for Metropolitan District in Decision (D.) 98-12-070 in 1998.

### **3. Procedural History**

By Resolution ALJ 176-3121 (October 16, 2003), the Commission preliminarily designated this application as a ratesetting proceeding and determined that hearings likely would be necessary. ORA filed a protest to the application on November 11, 2003. On November 24, the assigned administrative law judge (ALJ) held a prehearing conference, which both ORA and SCWC attended. Thereafter, on December 3, Assigned Commissioner Carl Wood issued a scoping ruling, as required by Pub. Util. Code § 1701.1(b).<sup>2</sup> Among other things, the scoping ruling set hearings for March 1, 2004.

SCWC's Advice Letter 1141-W, filed on February 9, 2004, became effective on February 14, 2004, permitting implementation of interim rates for the 2004 test year under the authority of § 455.2. That statute permits an inflation adjustment to rates prior to issuance of a final decision in a GRC proceeding when the

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<sup>2</sup> Unless otherwise indicated, all subsequent citations to sections refer to the Public Utilities Code and all subsequent citations to rules refer to the Rules of Practice and

*Footnote continued on next page*

proceeding is not resolved by the beginning of the first test year (here, January 2004) and the utility is not responsible for the delay.

By ruling on March 3, 2004, the ALJ revised the schedule at the parties' request. Hearings commenced on April 14 pursuant to the revised schedule. However, when the parties announced that they had reached agreements that would result in the resolution of all issues, hearings were continued until April 22 to permit them to memorialize these agreements in writing. On April 19, SCWC and ORA filed a motion requesting adoption of the resulting document, entitled "Stipulation and Settlement" (Settlement). The ALJ held a hearing on the Settlement on April 22. Late-filed Exhibit (Ex.) 7 was filed on May 10, and this proceeding was submitted for decision on May 14, 2004.

#### **4. Public Comment on the Application**

Afternoon and evening public participation hearings (PPHs) were held in Bell Gardens on February 23 and in Carson on February 24, approximately two months before evidentiary hearings. Attendance was light, with three or four speakers at each session. All the speakers opposed rate increases, at least in the amount proposed by SCWC.

Among those speakers who identified themselves as residential customers, several also raised billing or service concerns. The ALJ directed SCWC to follow up with these customers and to provide her with a status report at evidentiary hearing. Reference Ex. B contains this report, in the form of SCWC's letter to each of these residential customers, detailing the specific issues of concern, the results of the utility's investigation, and any corrective action taken.

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Procedure, which are codified at Chapter 1, Division 1 of Title 20 of the California Code of Regulations.

Mark Tettermer (Tettermer), Manager of Customer Development for West Basin and Central Basin Municipal Water Districts, spoke on behalf of those entities against SCWC's proposed increase in recycled water rates. The ALJ advised Tettermer of the municipal districts' opportunity to intervene in this proceeding. SCWC subsequently revised its recycled water tariff proposal, as we discuss below, and the municipal districts did not intervene.

In addition, the Commission has received more than one hundred letters opposing the rate increases proposed in the application, as noticed. Most are from residential customers but a number are from recycled water users, including a hospital in Region II. The letters, whether addressed to the Commission's Public Advisor, the ALJ or to Commissioners, have been placed in the formal file for this proceeding.

## **5. Settlement Criteria**

The Settlement is an uncontested "all-party" settlement. In such cases, the Commission applies two complementary standards to evaluate the proposed agreement. The first standard, set forth in Rule 51.1(e) and applicable to both contested and uncontested agreements, requires that the "settlement is reasonable in light of the whole record, consistent with law, and in the public interest." The second standard, articulated in *San Diego Gas & Electric*, 46 CPUC 2d 538 (1992), applies to all-party settlements. As a precondition to approving such a settlement, the Commission must be satisfied that:

- a. The proposed all-party settlement commands the unanimous sponsorship of all active parties to the proceeding.
- b. The sponsoring parties are fairly representative of the affected interests.

- c. No settlement term contravenes statutory provisions or prior Commission decisions.
- d. Settlement documentation provides the Commission with sufficient information to permit it to discharge its future regulatory obligations with respect to the parties and their interests.

SCWC and ORA are the only parties to this proceeding and both are signatories to the Settlement. Each party actively participated in all aspects of the proceeding, developing comprehensive prepared testimony and conducting discovery of the prepared testimony of the other. Settlement discussions did not commence until both parties' positions were public. SCWC was represented by knowledgeable officers and employees and by counsel. ORA, whose mandate is to represent ratepayer interests, likewise assigned knowledgeable staff and counsel. We conclude that the affected utility and ratepayers interests were fairly represented. Thus, the Settlement meets the first and second criteria of the all-party settlement guidelines. We examine the third and fourth criteria and the Rule 51.1(e) standard below, in connection with our review of the Settlement, itself.

## **6. Settlement Overview**

We have appended the entire Settlement to this decision (see Attachment A). Appendix A to the Settlement is a reconciliation exhibit for test years 2004 and 2005. It sets out, in dollars, each party's original position on every major revenue requirement component, the settlement position the parties jointly propose, and the difference between the original and settlement positions. Appendix B to the Settlement consists of a 2003 capital budget for Metropolitan District, which serves as an agreed-upon baseline, and the proposed capital budgets for 2004 and 2005.

In reviewing the settlement of these major issues, we organize our review according to the three major components of cost-based ratemaking (net operating income, rate base, and rate of return on rate base) and then examine miscellaneous additional issues.

### **6.1 Net Operating Income**

Net operating income (sometimes referred to as net operating revenue) is gross operating revenue less operating and maintenance expenses, depreciation, income taxes, and other taxes. The parties' agreement on the net operating income for test years 2004 and 2005, at proposed rates, is set forth in Table 3. More detailed information is provided in Appendix A to the Settlement.

**Table 3**  
**Settlement Provisions for Net Operating Income**  
**(Thousands of \$)**

TY	ORA	Settlement	SCWC
2004	15,512.6	16,825.3	12,040.6
2005	17,166.6	18,933.0	10,513.0

The Settlement resolves the parties' methodological and computational disagreements regarding forecasts of sales per customer, labor expenses, the various categories of administrative and general expenses, operations and maintenance expenses, taxes, and supply costs. Below, we highlight several additional aspects of this portion of the Settlement.

Labor Overtime. The forecasts for test year labor expenses for Region II include an additional amount (\$124,400 in 2004 and \$127,900 in 2005) to accommodate the increased overtime that SCWC has experienced as a result of federal security alerts, since these security alerts are not reflected in historical data. In response to the ALJ's question, SCWS stated that its limited experience



with such alerts to date does not permit an assessment of whether additional employees could or should be hired in lieu of overtime payments.

Outside Services. For SCWC, outside services include the costs for legal and engineering services. The amounts agreed upon (\$508,700 in 2004 and \$522,900 in 2005) do not include expenses associated with defending SCWC's water supply in the Central and West Basins. The parties agree that these costs, which are largely uncertain, should be recorded in an interest-bearing memorandum account and should be recoverable annually by advice letter filing after review for reasonableness. The parties propose to cap the memorandum account by the amount equivalent to the differential between SCWC's forecast for outside services during each year of this GRC cycle and the Settlement amount (up to but not to exceed \$476,600 in 2004, \$490,000 in 2005 and \$501,600 in 2006).

The parties agree that two categories of costs may be recorded in the memorandum account. The first are costs attributable to working with public agencies on water supply reliability and rate issues; the second are costs associated with participation in the Conjunctive Use Working Group (CUWG) in settlement negotiations and potential litigation to resolve disputes over long-term storage costs. The Settlement lists examples of expenses appropriate to each category.

Purchased Energy. Southern California Edison Company (Edison) provides electric power to SCWC. The Settlement recognizes that the energy charge component of SCWC's monthly electric bill from Edison will vary in future depending upon the actual mix of Utility Retained Generation (URG) and the cost of power provided by the Department of Water Resources (DWR). The Settlement assumes a monthly mix of 55% URG power and 45% DWR power, but

would permit SCWC to record any difference between this assumed ratio and the actual mix in an existing memorandum account, the Supply Cost Balancing-Type Memorandum Account, for recovery on an annual basis.

Rates Charged for Purchased Water, Purchased Power and Pump Tax.

The parties agree to use for both test years the latest available rates prior to developing the tables used to calculate supply expenses for today's decision.

**6.2 Rate Base**

**6.2.1 Capital Additions**

Since D.98-12-070 was the last complete GRC review for the customer service areas within Region II, the parties each proposed a 2003 capital budget for use in forecasting the test year capital budgets for this GRC cycle. For 2003, the Settlement relies upon the stipulated sum of \$27,217,710 for total capital additions, comprising all plant and other capital investments in the Metropolitan District plant, the Region II headquarters capital budget, a 23.75% overhead rate, and other adjustments. For 2004, the stipulated total capital additions for ratemaking purposes are \$44,272,581 in 2004, increasing rate base to \$191,849,500 in that test year. For 2005, the stipulated total capital additions are \$26,547,350, resulting in a rate base of \$216,375,100. The 2004 capital budget includes a number of projects deferred from 2003. It also reflects the reduction attributable to removing SCWC's Charnock Basin Facilities from rate base. Those facilities are no longer used and useful following the sale, approved by the Commission in D.03-05-001, of the associated water rights to the City of Santa Monica.

Capital Projects Deferred to Advice Letter Filings.

Because of required lead-times and the cost uncertainties for four other capital projects, the Settlement moves them out of the GRC capital budget forecasts and proposes cost recovery for them by advice letter (AL) filing. The

parties agree that the ALs should include an overhead rate of 23.75% and that recovery should be capped, as follows:

- Perham—relocation of unstable reservoirs, tanks and other infrastructure to new site, including electrical upgrade; \$1,697,800 cap; 2004 AL filing.
- Southwest CSA Office—relocation from current location in Carson to a more secure location to protect employee security; \$298,100 cap; 2004 AL filing.
- Budlong—demolish existing aging, aerial tanks and replace with two ground level 1.5 million gallon tanks; \$1,839,500 cap; 2005 AL filing.
- Central District Office—relocation of current office to increase employee office space and to increase parking; \$400,000; 2005 AL filing.

The parties' rationale for advice letter treatment for these capital items has been adequately documented and the recommended approach appears reasonable. Late-filed Ex. 7 estimates that the impact of the two 2004 AL filings would be an increase of about 19 cents on the monthly bill for the typical customer (one who uses 23 Ccf of water each month). The impact of the two 2005 AL filings would be an additional increase of about 26 cents per month for such customers. Thus, over the GRC cycle, the average customer's bill would increase about 45 cents beyond the increases attributable to the utility's general revenue requirement.

### **6.2.2 Cost of Money and Capital Structure**

The parties agree on both the forecasted capital structure (50% debt and 50% equity) and the cost of debt (7.63% in 2004, 7.60% in 2005 and 7.58% in 2006). The Settlement proposes their compromise on the cost of equity, 9.90%. This is the same value the Commission adopted as the authorized rate of return on equity in SCWC's most recent GRC decision, D.04-03-039. Given the nominal

change in financial indicia since that time, this compromise figure seems reasonable.

### **6.3 Rate of Return**

The Settlement anticipates an authorized rate of return on rate base of 8.77% in 2004 and 8.75% in 2005. Reference Ex. A lists the rates of return the Commission has authorized in the Class A water utility GRC decisions issued since 1997. The Settlement's proposed rates of return are in step with the general trend of those decisions and particularly, D.04-03-039, SCWC's most recent GRC decision, which authorized a rate of return of 8.79% for a 2003 test year.

### **6.4 Other Issues**

Below we highlight several other provisions of the Settlement.

#### **6.4.1 Water Quality OII Expense Amortization**

Three 1998 Commission Resolutions (W-4089, W-4094, and W-4257) authorize establishment of a Water Quality OII Expense Memorandum Account, for the recordation and potential future recovery of expenses related to that OII into drinking water quality and related litigation expenses. The Settlement acknowledges that D.04-03-039 authorizes amortization of the current memorandum account balance over one year. The Settlement provides that the memorandum account shall remain open for recordation of continuing water quality litigation expenses but does not propose any change to the amortization rate at this time.

#### **6.4.2 Water Quality Memorandum Accounts**

The Settlement acknowledges that D.04-03-039 authorizes SCWC to establish memorandum accounts to record and potentially recover its compliance costs with new or revised rules by the Federal Environmental Protection Agency and/or State Department of Health Services concerning five specific

contaminants. The Settlement provides that SCWC may extend this memorandum account process to other contaminants and other new or changed rules issued by these two agencies. This proposal is reasonable, since SCWC's reasonable compliance costs will be incurred in response to mandates necessary to ensure water quality. At hearing, SCWC was unable to predict what changes may be forthcoming, so it is not possible to predict the associated bill impacts at this time.

#### **6.4.3 Reclaimed Water Rate (ME-3 Tariff)**

Ex. 1 provides background on SCWC's reclaimed water rate in the Metropolitan District, which is offered under the ME-3 tariff. This rate was originally set so that the monthly meter service charges were the same as for potable water, offered under the ME-1 tariff, but the quantity rate per hundred cubic feet was 80% of the potable water quantity rate. According to SCWC, this is a standard rate design for reclaimed water within the industry. In 1997, the ME-3 reclaimed water rate was reduced in an effort to attract more customers and thereby create an additional potable water supply, according to SCWC's testimony at hearing. The customer base for reclaimed water (presently 43 customers) has not increased markedly since 1997, and SCWC's application requests Commission authority to return to the original rate design.

The Settlement endorses restructuring of the reclaimed water tariff over six years, resulting in a target commodity rate, in 2009, of 70% of the potable water rate. Because the resulting rate increases beyond this GRC cycle are estimates, the rates for 2007-2009 would be recalculated in SCWC's next Metropolitan District GRC. Section 11.03 of the Settlement states this phase-in proposal is the result of discussions between SCWC and the West Basin and Central Basin Municipal Water Districts. As we note in Section 4 of today's

decision, these Municipal Districts opposed the proposal in SCWC's application but did not intervene in this proceeding—thus, they are not signatories to the Settlement. SCWC and ORA both represent that the Settlement proposal is a reasonable compromise.

Our record on this subject includes testimony from SCWC that the West Basin and Central Basin Municipal Water Districts set the rates for both the reclaimed and potable water supplies that SCWC buys from the Municipal Districts, and that SCWC then passes these costs through to its customers. According to SCWC, the reduced cost of reclaimed water since 1997 has been subsidized at the Municipal District level by increases in the price of potable water to SCWC. No studies have been done to definitively assess the level of the current subsidy or whether one will continue to exist under the Settlement proposal. On this point, Section 11.03 of the Settlement states: "The time required to produce a cost of service study would not be an efficient use of ratepayer money and would still result in controversial assumptions of cost allocation."

On the basis of the record before us, we conclude that the Settlement will mitigate rate shock to existing reclaimed water customers, compared to the proposal in SCWC's application, and also will provide some reduction in the cost of purchased potable water supplies from the Municipal Districts, compared to the cost of those supplies under the current rate structure. SCWC should address this issue again in its next GRC filing for the Metropolitan District. While we will not require a cost of service study *per se*, we expect a fuller and more transparent discussion of the impact of the revised rate design on the costs of reclaimed and potable water supplied to SCWC by the Municipal Districts and on the resulting rate charged by SCWC to both ME-3 and ME-1 customers.

#### **6.4.4 California Alternative Rate for Water (CARW)**

D.00-06-075 approved SCWC's CARW program, which offers a reduced rate to qualifying low-income customers. The decision authorized SCWC to record implementation costs (both discounts and administrative costs) in a balancing account for 18 months following the launch of the program and thereafter to provide the forecasts necessary to include the program costs in base rates. At the PHC, the ALJ inquired whether CARW program costs should be moved into base rates in this GRC, noting that the utility would have more than 18 months of actual data by the time hearings were held in the spring of 2004. The Settlement defers base rate treatment of CARW costs to the next GRC, for two reasons. First, SCWC reports that the program is still too new and that participation is too erratic to provide reliable data. Second, ORA indicates that it is examining whether to propose an industry-wide approach to low-income rate development, and that it requires additional time to complete its assessment. The parties' rationale makes sense, and we agree that the status quo should continue at this time. We will revisit this matter in SCWC's next Region II GRC, and we direct SCWC to address D.00-06-075's directives in that application.

#### **6.5 Compliance with Remaining Settlement Criteria**

In Section 5 of today's decision, we determine that the Settlement on its face complies with the first and second all-party settlement criteria. After reviewing the Settlement terms in detail, we find that it complies with the third and fourth criteria. With respect to the third, the parties represent that no term of the Settlement contravenes any statutory provision or Commission decision, and we are aware of no conflict. With respect to the fourth, our review indicates that the Settlement provides the detail necessary to implement its terms during

this GRC cycle and to discharge our future regulatory responsibilities. For example, the scope of the deferred capital projects, their estimated costs, and the cost cap on each project are sufficiently described to allow future advice letter review. We conclude, on balance, that the Settlement is reasonable in light of the record developed in this proceeding, that it is in the public interest, and that it should be approved. Thus, the Settlement meets the conditions of Rule 51.1(e).

Attachment B to today's decision consists of Appendices A-G, all prepared by the Commission's Water Division. Attachment B reflects the ratemaking impact of the Settlement. It includes a summary of earnings for both test years, the tariff revisions necessary to implement the new rates, itemization of the adopted quantities, attrition calculations for 2006, comparisons showing the bill increase for an average meter (5/8-inch) at various consumption levels, and the calculation of income taxes for ratemaking purposes.

#### **8. Assignment of Proceeding**

Carl Wood is the Assigned Commissioner in this proceeding; Jean Vieth is the assigned ALJ and the principal hearing officer.

#### **9. Comments on Proposed Decision**

The principal hearing officer's proposed decision was filed with the Commission and served on the parties in accordance with § 311(d) and Rule 77.1. SCWC filed comments on August 9, 2004. We have made minor computational corrections to Table 1, revised Table to 3 to represent the parties' positions at proposed rates rather than present rates, and corrected the errors identified in Attachment B, Appendices A and D. We have also corrected several minor, typographical errors. Because we adopt the parties' Settlement in its entirety, we see no need to include additional ordering paragraphs that separately approve select paragraphs of the Settlement and we decline to do so.



### **Findings of Fact**

1. The all-party Settlement negotiated by SCWC and ORA resolves every issue between them in this proceeding.
2. SCWS and ORA are fairly reflective of the affected interests in this proceeding.
3. No term of the proposed Settlement contravenes statutory provisions or prior Commission decisions.
4. The Settlement conveys sufficient information to permit the Commission to discharge its future regulatory obligations with respect to the parties and their interests.
5. The proposed Settlement is unopposed.
6. The Settlement will mitigate rate shock for SCWC's recycled water customers; however, SCWC should provide more information on the relationship between potable and recycled water rates in its next GRC application for Metropolitan District.
7. There is insufficient reliable implementation data to require SCWC to place the California Alternative Rate for Water program in base rates during this GRC cycle.
8. The summaries of earnings presented in Attachment B, Appendix A; the quantities and calculations presented in Attachment B, Appendix D; and the four capital projects to be processed by advice letter, all based on the Settlement, are reasonable, justified, and sufficient for ratemaking purposes.

### **Conclusions of Law**

1. The Settlement is an uncontested agreement as defined in Rule 51(e) and an all-party settlement under *San Diego Gas & Electric*, 46 CPUC 2d 538 (1992).

The proposed settlement satisfies the requirements of Rule 51(e) and *San Diego Gas & Electric*.

2. The Settlement is reasonable in consideration of the whole record, consistent with law, and in the public interest.
3. The Settlement should be adopted.
4. The revised rates, step increases, and tariff rule revisions set forth in Attachment B, Appendices B, C and E, based on the Settlement, are justified.
5. This decision should be made effective immediately to enable SCWC to implement the Settlement without delay.

## **O R D E R**

### **IT IS ORDERED** that:

1. The Joint Motion to Adopt Settlement between Southern California Water Company (SCWC) and the Office of Ratepayer Advocates (ORA) is granted. The Settlement and Stipulation (Settlement) attached to that motion and appended to this decision as Attachment A, is adopted. The ratemaking calculations and budgets, and the tariff revisions, all in Attachment B, are approved.
2. SCWC is authorized to file, in accordance with General Order (GO) 96-A, or its successor, and to make effective, on not less than five days' notice, tariffs containing the test year 2004 increases for Metropolitan District as provided in the attachments to this decision. The revised rates shall apply to service rendered on and after the tariff's effective date.
3. Subject to pro forma tests after the 2004 increases are effective, SCWC also is authorized to file, in accordance with GO 96-A, or its successor, and to make effective, on not less than five days' notice, tariffs containing the test year 2005 increases for Metropolitan District as provided in this decision and the

attachments to this decision. The revised rates shall apply to service rendered on and after the tariff's effective date.

4. Advice letters for authorized rate increases for 2006 may be filed, in accordance with GO 96-A or its successor, no earlier than November 5 of the preceding year. The filing shall include appropriate work papers. The increase shall be the amount authorized herein, or a proportionate lesser increase if SCWC's rate of return on rate base, adjusted to reflect rates then in effect, normal ratemaking adjustments, and the change adopted to this pro forma test, if any, in R.03-09-005, the Rate Case Plan Rulemaking proceeding, for the 12 months ending September 30 of the preceding year exceeds (a) the rate of return found reasonable by the Commission for SCWC for the corresponding period in the most recent rate decision, or (b) 8.75%. The advice letters shall be reviewed by the Commission's Water Division for conformity with this decision including the applicable provisions of the Settlement and shall go into effect upon the Water Division's determination of compliance, not earlier than January 1 of the year for which the increase is authorized, or 30 days after filing, whichever is later. The tariffs shall be applicable to service rendered on or after the effective date.

5. SCWC is authorized to file an advice letter to recover or refund, over no less than one year, the difference between the interim rates authorized pursuant to Advice Letter No. 1141-W, which was filed on February 9, 2004 and became effective on February 14, 2004, and the rates authorized in this decision. The advice letter filing shall include all supporting data and calculations. The Commission's Water Division shall inform the Commission if it finds the proposed rate change does not comply with this decision or other Commission requirements.

6. SCWC is authorized to file advice letters to include in rate base the reasonable capital costs, limited by the stipulated cost cap, of the four plant additions (Perham, Southwest CSA Office, Budlong, and Central District Office) enumerated in § 3.04 of the Settlement. Water Division shall use the factors described in § 3.04 in its review of each advice letter.

7. SCWC's next general rate case application for the Metropolitan District shall address:

- (a) The impact of the revised recycled water rate design on the cost of reclaimed and potable water supplied to SCWC, in conformance with Section 6.4.3 of this decision; and
- (b) The directives in Decision 00-06-075 regarding the California Alternative Rate for Water program, in conformance with Section 6.4.4 of this decision.

This order is effective today.

Dated August 19, 2004, at San Francisco, California.

MICHAEL R. PEEVEY  
President  
CARL W. WOOD  
LORETTA M. LYNCH  
GEOFFREY F. BROWN  
SUSAN P. KENNEDY  
Commissioners